

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Grass Lake	County Jackson
Fiscal Year End February 28, 2006	Opinion Date September 25, 2006	Date Audit Report Submitted to State November 6, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Willis & Jurasek, P.C.		Telephone Number (517) 788-8660		
Street Address 2545 Spring Arbor Road, Suite 200		City Jackson	State MI	Zip 49203
Authorizing CPA Signature <i>F. R. Mack</i>		Printed Name F. Roger Mack		License Number 1101020342

Village of Grass Lake

Financial Statements
And Independent Auditors' Report

Year Ended February 28, 2006

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Report Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	3
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	4
Statement of Activities	5-6
Fund Financial Statements:	
Balance Sheet – Governmental Funds	7
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	8
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	9
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Statement of Net Assets – Proprietary Funds	11
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	12
Statement of Cash Flows – Proprietary Funds	13
Notes to Financial Statements	14–24
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	25
Budgetary Comparison Schedule – Major Street Fund	26
Budgetary Comparison Schedule – Local Street Fund	27
Other Supplemental Information:	
Schedule of Bonded Indebtedness	28-29



Independent Auditors' Report

Members of the Village Council
Village of Grass Lake
Grass Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Grass Lake as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Grass Lake as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Village of Grass Lake has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the financial statements.

The budgetary comparison information on pages 25 -27 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated September 25, 2006, on our consideration of the Village's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Village of Grass Lake's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Village of Grass Lake. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 25, 2006



**Report Based on an Audit of Financial Statements
Performed in Accordance With
Government Auditing Standards**

Members of the Village Council
Village of Grass Lake
Grass Lake, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Grass Lake as of and for the year ended February 28, 2006, and have issued our report thereon dated September 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Grass Lake's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Village of Grass Lake in a separate letter dated September 25, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Grass Lake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Village of Grass Lake in a separate letter dated September 25, 2006.

This report is intended for the information and use of the Village Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 25, 2006

WILLIS & JURASEK, P.C.

2545 Spring Arbor Road
Suite 200
Jackson, MI 49203-3690

Village of Grass Lake
Statement of Net Assets
February 28, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
Assets:				
Cash and investments	\$ 592,535	\$ 379,280	\$ 971,815	\$ 172,394
Receivables	47,794	40,856	88,650	18,414
Special assessment receivables	-	311,530	311,530	-
Inventory	-	100,702	100,702	-
Capital assets, net				
Not being depreciated	49,792	-	49,792	50,000
Being depreciated	255,504	4,557,484	4,812,988	-
Total assets	<u>945,625</u>	<u>5,389,852</u>	<u>6,335,477</u>	<u>240,808</u>
Liabilities:				
Accounts payable	12,680	8,572	21,252	-
Accrued expenses	17,332	-	17,332	-
Noncurrent liabilities:				
Due within one year	-	230,000	230,000	-
Due in more than one year	-	3,090,000	3,090,000	-
Total liabilities	<u>30,012</u>	<u>3,328,572</u>	<u>3,358,584</u>	<u>-</u>
Net Assets:				
Invested in capital assets, net of related debt	305,296	1,237,484	1,542,780	-
Unrestricted	610,317	823,796	1,434,113	240,808
Total net assets	<u>\$ 915,613</u>	<u>\$ 2,061,280</u>	<u>\$ 2,976,893</u>	<u>\$ 240,808</u>

See Notes to Financial Statements.

Village of Grass Lake
Statement of Activities
Year Ended February 28, 2006

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary Government				
Governmental activities:				
Legislative	\$ 17,441	\$ -	\$ -	\$ (17,441)
General government	87,642	7,167	-	(80,475)
Public safety	70,789	13,170	-	(57,619)
Public works	177,689	-	94,344	(83,345)
Highways and streets	-	-	-	-
Culture and recreation	2,661	-	-	(2,661)
Sanitation	7,339	-	-	(7,339)
Interest on long-term debt	-	-	-	-
Unallocated depreciation	-	-	-	-
Total governmental activities	<u>363,561</u>	<u>20,337</u>	<u>94,344</u>	<u>(248,880)</u>
Business-type activities:				
Water	195,361	235,644	-	40,283
Sewer	<u>266,016</u>	<u>152,992</u>	<u>-</u>	<u>(113,024)</u>
Total business-type activities	<u>461,377</u>	<u>388,636</u>	<u>-</u>	<u>(72,741)</u>
Total primary government	<u>\$ 824,938</u>	<u>\$ 408,973</u>	<u>\$ 94,344</u>	<u>\$ (321,621)</u>
Component Units				
Downtown Development Authority	<u>\$ 5,105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(5,105)</u>

continued..

Village of Grass Lake,
Statement of Activities (Continued)
Year Ended February 28, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
Changes in Net Assets				
Net (expense) revenue	\$ (248,880)	\$ (72,741)	\$ (321,621)	\$ (5,105)
General revenues:				
Property taxes	168,621	-	168,621	111,321
Unrestricted grants and contributions	91,187	-	91,187	-
Interest and investment earnings	1,496	23,799	25,295	1,377
Other revenues	33,882	-	33,882	-
Transfers - internal activities	7,500	50,000	57,500	(57,500)
Total general revenues and transfers	302,686	73,799	376,485	55,198
Changes in Net Assets	53,806	1,058	54,864	50,093
Net Assets - Beginning of Year	861,807	2,060,222	2,922,029	190,715
Net Assets - End of Year	\$ 915,613	\$ 2,061,280	\$ 2,976,893	\$ 240,808

See Notes to Financial Statements.

Village of Grass Lake

Balance Sheet
Governmental Funds
February 28, 2006

	General	Major Street	Local Street	Other Nonmajor Governmental Funds	Total
<u>Assets</u>					
Cash	\$ 388,307	\$ 116,368	\$ 63,241	\$ 10,987	\$ 578,903
Receivables:					
Taxes receivable	15,579	-	-	-	15,579
Special assessments	655	-	-	-	655
Due from other governmental units	15,287	12,561	3,712	-	31,560
Total assets	<u>\$ 419,828</u>	<u>\$ 128,929</u>	<u>\$ 66,953</u>	<u>\$ 10,987</u>	<u>\$ 626,697</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 9,625	\$ 193	\$ 735	\$ 100	\$ 10,653
Salaries payable	13,825	-	-	-	13,825
Other liabilities	3,507	-	-	-	3,507
Total liabilities	<u>26,957</u>	<u>193</u>	<u>735</u>	<u>100</u>	<u>27,985</u>
Fund Balances:					
Unreserved;undesignated	392,871	128,736	66,218	-	587,825
Unreserved;undesignated- reported in nonmajor:					
Special revenue funds	-	-	-	10,887	10,887
Total fund balances	<u>392,871</u>	<u>128,736</u>	<u>66,218</u>	<u>10,887</u>	<u>598,712</u>
Total liabilities and fund balances	<u>\$ 419,828</u>	<u>\$ 128,929</u>	<u>\$ 66,953</u>	<u>\$ 10,987</u>	<u>\$ 626,697</u>

Village of Grass Lake
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
February 28, 2006

Total Fund Balances - Governmental Funds	\$ 598,712
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Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

The cost of the capital assets is

\$ 541,860

Accumulated depreciation is

(236,564)

305,296

Internal service funds are used by management to charge the costs of certain
equipment usage and administrative costs to individual governmental funds.
The assets and liabilities of the internal service funds are included in governmental
activities in the Statement of Net Assets.

Net assets of governmental activities accounted for in the internal service fund

11,605

Total Net Assets - Governmental Activities

\$ 915,613

Village of Grass Lake
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended February 28, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues:					
Taxes	\$ 168,621	\$ -	\$ -	\$ -	\$ 168,621
Licenses and permits	935	-	-	-	935
Intergovernmental	91,187	74,032	20,312	-	185,531
Charges for services	4,059	-	-	13,170	17,229
Fines and forfeitures	2,173	-	-	-	2,173
Other	23,424	972	524	-	24,920
Total revenues	<u>290,399</u>	<u>75,004</u>	<u>20,836</u>	<u>13,170</u>	<u>399,409</u>
Expenditures:					
Legislative	17,441	-	-	-	17,441
General government	87,642	-	-	-	87,642
Public safety	56,816	-	-	13,973	70,789
Public works	44,643	61,698	63,764	-	170,105
Sanitation	7,339	-	-	-	7,339
Community and economic development	2,661	-	-	-	2,661
Total expenditures	<u>216,542</u>	<u>61,698</u>	<u>63,764</u>	<u>13,973</u>	<u>355,977</u>
Revenues Over (Under) Expenditures	<u>73,857</u>	<u>13,306</u>	<u>(42,928)</u>	<u>(803)</u>	<u>43,432</u>
Other Financing Sources (Uses):					
Operating transfers in	7,500	-	20,000	-	27,500
Operating transfers out	(45,000)	-	-	-	(45,000)
Total other financing sources (uses)	<u>(37,500)</u>	<u>-</u>	<u>20,000</u>	<u>-</u>	<u>(17,500)</u>
Net Changes in Fund Balances	<u>36,357</u>	<u>13,306</u>	<u>(22,928)</u>	<u>(803)</u>	<u>25,932</u>
Fund Balances - Beginning of Year	<u>356,514</u>	<u>115,430</u>	<u>89,146</u>	<u>11,690</u>	<u>572,780</u>
Fund Balances - End of Year	<u>\$ 392,871</u>	<u>\$ 128,736</u>	<u>\$ 66,218</u>	<u>\$ 10,887</u>	<u>\$ 598,712</u>

See Notes to Financial Statements.

Village of Grass Lake
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended February 28, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	25,932
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Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures; in the
Statement of Activities, these costs are allocated over their estimated
useful lives as depreciation.

Depreciation expense	\$	(7,584)	
Capital outlay		<u>-</u>	(7,584)

An internal service fund is used by management to charge the costs of
certain equipment usage to individual governmental funds. The net revenue
(expense) of the fund attributable to those funds is reported with
governmental activities.

Change in net assets from governmental activities in the internal service fund		<u>35,458</u>
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Change in Net Assets of Governmental Activities	\$	<u><u>53,806</u></u>
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Village of Grass Lake,
Statement of Net Assets
Proprietary Funds
February 28, 2006

	Business-Type Activities			Governmental Activities
	Enterprise Funds			Internal Service Funds
	Water	Sewer	Total	
Assets:				
Current assets:				
Cash and cash equivalents	\$ 12,722	\$ 366,558	\$ 379,280	\$ 13,632
Accounts receivable	21,775	19,081	40,856	-
Special assessment receivables	-	311,530	311,530	-
Inventory	-	100,702	100,702	-
Total current assets	<u>34,497</u>	<u>797,871</u>	<u>832,368</u>	<u>13,632</u>
Property, plant and equipment:				
Land	-	-	-	49,792
Buildings	-	-	-	165,494
Machinery and equipment	-	-	-	174,883
Main and accessories	2,371,283	3,092,678	5,463,961	-
Less accumulated depreciation	<u>(165,225)</u>	<u>(741,252)</u>	<u>(906,477)</u>	<u>(225,188)</u>
Total property, plant and equipment	<u>2,206,058</u>	<u>2,351,426</u>	<u>4,557,484</u>	<u>164,981</u>
Total assets	<u>2,240,555</u>	<u>3,149,297</u>	<u>5,389,852</u>	<u>178,613</u>
Liabilities:				
Current liabilities (payable from current assets):				
Accounts payable	4,283	4,289	8,572	2,027
Current portion of long-term debt	<u>95,000</u>	<u>135,000</u>	<u>230,000</u>	-
Total current liabilities (payable from current assets)	<u>99,283</u>	<u>139,289</u>	<u>238,572</u>	<u>2,027</u>
Noncurrent liabilities:				
Bonds payable	<u>1,885,000</u>	<u>1,205,000</u>	<u>3,090,000</u>	-
Total noncurrent liabilities	<u>1,885,000</u>	<u>1,205,000</u>	<u>3,090,000</u>	-
Total liabilities	<u>1,984,283</u>	<u>1,344,289</u>	<u>3,328,572</u>	<u>2,027</u>
Net Assets:				
Invested in capital assets, net of related debt	226,058	1,011,426	1,237,484	164,981
Unrestricted	<u>30,214</u>	<u>793,582</u>	<u>823,796</u>	<u>11,605</u>
Total net assets	<u>\$ 256,272</u>	<u>\$ 1,805,008</u>	<u>\$ 2,061,280</u>	<u>\$ 176,586</u>

See Notes to Financial Statements.

Village of Grass Lake
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
Year Ended February 28, 2006

	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>	<u>Governmental Activities Internal Service Funds</u>
Operating Revenues:				
Charges for services	\$ 235,644	\$ 152,992	\$ 388,636	\$ -
Rental income	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,351</u>
Total operating revenues	<u>235,644</u>	<u>152,992</u>	<u>388,636</u>	<u>74,351</u>
Operating Expenses	<u>143,486</u>	<u>237,866</u>	<u>381,352</u>	<u>63,495</u>
Operating Income (Loss)	<u>92,158</u>	<u>(84,874)</u>	<u>7,284</u>	<u>10,856</u>
Nonoperating Revenues (Expenses):				
Interest income	4,613	19,186	23,799	-
Interest expense	<u>(51,875)</u>	<u>(28,150)</u>	<u>(80,025)</u>	<u>(398)</u>
Total nonoperating revenues (expenses)	<u>(47,262)</u>	<u>(8,964)</u>	<u>(56,226)</u>	<u>(398)</u>
Net Income (Loss) Before Transfers	44,896	(93,838)	(48,942)	10,458
Transfers in from Other Funds	<u>-</u>	<u>50,000</u>	<u>50,000</u>	<u>25,000</u>
Net Income (Loss)	44,896	(43,838)	1,058	35,458
Net Assets - Beginning of Year	<u>211,376</u>	<u>1,848,846</u>	<u>2,060,222</u>	<u>141,128</u>
Net Assets - End of Year	<u>\$ 256,272</u>	<u>\$ 1,805,008</u>	<u>\$ 2,061,280</u>	<u>\$ 176,586</u>

See Notes to Financial Statements.

Village of Grass Lake
Statement of Cash Flows
Proprietary Funds
Year Ended February 28, 2006

	Business-type Activities Enterprise Funds			Governmental Activities - Internal Service Funds
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>	
Cash Flows From Operating Activities:				
Cash received from customers, residents and users	\$ 233,505	\$ 156,000	\$ 389,505	\$ 74,351
Payments to suppliers	(62,428)	(163,861)	(226,289)	(49,556)
Payments to employees	(30,119)	(46,610)	(76,729)	(1,352)
Net cash provided by (used in) operating activities	<u>140,958</u>	<u>(54,471)</u>	<u>86,487</u>	<u>23,443</u>
Cash Flows From Capital and Related Financing Activities:				
Collections advance to other funds	-	28,634	28,634	-
Payments on advance to other funds	-	-	-	(28,634)
Collections on special assessments	-	60,559	60,559	-
Purchase of capital assets	-	-	-	(18,000)
Principal and interest on capital debt	<u>(146,875)</u>	<u>(163,150)</u>	<u>(310,025)</u>	<u>(8,463)</u>
Net cash used by capital and related financing activities	<u>(146,875)</u>	<u>(73,957)</u>	<u>(220,832)</u>	<u>(55,097)</u>
Cash Flows From Investing Activities:				
Transfers in from other funds	-	50,000	50,000	25,000
Interest income received	<u>4,613</u>	<u>19,186</u>	<u>23,799</u>	<u>-</u>
Net cash provided by investing activities	<u>4,613</u>	<u>69,186</u>	<u>73,799</u>	<u>25,000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(1,304)</u>	<u>(59,242)</u>	<u>(60,546)</u>	<u>(6,654)</u>
Cash and Cash Equivalents - Beginning of Year	<u>14,026</u>	<u>425,800</u>	<u>439,826</u>	<u>20,286</u>
Cash and Cash Equivalents - End of Year	<u>\$ 12,722</u>	<u>\$ 366,558</u>	<u>\$ 379,280</u>	<u>\$ 13,632</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ 92,158	\$ (84,874)	7,284	\$ 10,856
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	48,138	62,787	110,925	14,760
Changes in:				
Accounts receivable	(2,139)	3,008	869	-
Inventory	-	(37,495)	(37,495)	-
Accounts payable	<u>2,801</u>	<u>2,103</u>	<u>4,904</u>	<u>(2,173)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 140,958</u>	<u>\$ (54,471)</u>	<u>\$ 86,487</u>	<u>\$ 23,443</u>

See Notes to Financial Statements.

Village of Grass Lake
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Description of Village Operations

The Village of Grass Lake, Michigan, operates under a Council form of government and provides various services to its residents in many areas including community enrichment and development and human services and water and sewer services. The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships. Education services are provided through the local school system, which is a separate governmental entity and, therefore, is not represented in the financial statements included herein.

Reporting Entity

Generally accepted accounting principles require the reporting entity to include the Village of Grass Lake (the primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government. These financial statements present the following component units:

Discretely Presented Component Units

Downtown Development Authority - The Downtown Development Authority (DDA) was formed to enhance the Village's business district by preservation, creation and implementation of the development plans in the district to be financed by taxes from properties within its district.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Village of Grass Lake
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Fund-Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Village of Grass Lake
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The government reports the following major governmental funds:

General Fund – This fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the major street functions of the Village.

Local Street Fund – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the local street functions of the Village.

The government reports the following major proprietary funds:

Water Fund – The Water Fund accounts for the activities of the government's water production, purification, and distribution systems.

Sewer Fund – The Sewer Fund accounts for the activities of the government's sewage collection and treatment systems.

Additionally, the government reports the following fund types:

Special Revenue Funds – These funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects).

Internal Service Funds – The internal service funds account for operations that provide services (equipment rental) to other departments of the Village on a cost-reimbursement basis.

Additional Financial Statement Presentation Information - Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, water and sewer enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Village of Grass Lake
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The Village reports its investments (when applicable) in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Village intends to hold the investment until maturity. Accordingly, investments in bankers acceptances and commercial paper are recorded at amortized cost. The Village had no investments at February 28, 2006.

State statutes authorize the Village to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Village is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

Receivables and Payables – All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – Certain proceeds of the enterprise funds' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements.

Village of Grass Lake
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Machinery and equipment	5 – 20
Infrastructure	20
Systems and improvements	10 - 50

Compensated Absences – Village personnel policies provide full-time employees with one week of vacation leave after one year of employment; two weeks after two years; and three weeks after five years. Sick leave is granted at the rate of one day per month, limited to a maximum of thirty days accumulation. Neither vacation nor sick time is recorded until paid. Current accumulated leave time is immaterial.

Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Village of Grass Lake
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property Taxes - The government's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Ingham County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the Village for 2004 had a taxable value of approximately \$25,364,000 (not including properties subject to Industrial Facilities Tax exemption), representing 50% of estimated current market value. The government's general operating tax rate for fiscal year 2005-06 was 7.7913 mills for general operations.

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other related taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the Village of Grass Lake, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

2. Stewardship, Compliance and Accountability

The general and special revenue funds are the governmental fund types under formal budgetary control. The Village adopts its budget in accordance with Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and annual appropriation act to implement the budget.

- 1) A general and special revenue funds budget is presented to Village Council in January, at which time hearings on the budget are scheduled. A Public Hearing is held in February and a special meeting is held to give all elected officials the opportunity to discuss their budget with the Council.
- 2) The budget, and an appropriation ordinance implementing it, is then adopted in February.
- 3) Formal budget integration is employed as a management control device during the year for all funds.
- 4) Budgets presented for the general and special revenue funds were prepared on the modified cash basis of accounting. Encumbrances are not recorded at year end.
- 5) Expenditures may not legally exceed activity (department) totals. Violations if any, are noted in the required supplementary information section.
- 6) Budgets for the current year are carefully reviewed during the year for any revision of estimates. Proposed increases or reductions in appropriations are presented to the Council for their action. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary.

Village of Grass Lake
Notes to Financial Statements

2. Stewardship, Compliance and Accountability (Continued)

- 7) The Council has the authority to amend all budgets at the fund level through the appropriation ordinance. It further has the right to amend the general fund at the activity level if it desires. Management has no authority to amend budgets at the fund level. Management can do transfers within funds at the departmental level without governing board approval but not between departments.
- 8) The budgetary information presented has not been amended during the year by an official action of the Village Council.
- 9) All budget appropriations lapse at the end of each fund's fiscal year.

3. Cash and Cash Equivalents

To facilitate better management of the Village's resources, cash is combined in a pooled operating account for much of the Village's activity.

At year-end, the Village's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Proprietary Funds</u>	<u>Total Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Cash and investments	\$ <u>592,535</u>	\$ <u>379,280</u>	\$ <u>971,815</u>	\$ <u>172,394</u>	\$ <u>1,144,209</u>

The breakdown between deposits and investments for the Village is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$1,144,102
Petty cash and cash on hand	<u>107</u>
Total	\$ <u>1,144,209</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. The Village has not adopted and State law does not require a policy for deposit custodial credit risk. As of year end, \$1,076,274 of the Village's bank balance of \$1,286,703 was exposed to custodial credit risk because it was uninsured and uncollateralized.

4. Receivables

Receivables of the governmental activities of the primary government at year end, consist of the following:

Other governmental units (primarily the State of Michigan)	\$ 31,560
Taxes	15,579
Other	<u>655</u>
	\$ <u>47,794</u>

Village of Grass Lake
Notes to Financial Statements

5. Capital Assets

Capital assets activity for the year ended February 28, 2006 was as follows:

Primary Government	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 49,792	\$ -	\$ -	\$ 49,792
Total capital assets not being depreciated	<u>49,792</u>	<u>-</u>	<u>-</u>	<u>49,792</u>
Capital assets being depreciated:				
Buildings and improvements	165,494	-	-	165,494
Machinery and equipment	169,770	18,000	12,887	174,883
Infrastructure	<u>151,691</u>	<u>-</u>	<u>-</u>	<u>151,691</u>
Total capital assets being depreciated	<u>486,955</u>	<u>18,000</u>	<u>12,887</u>	<u>492,068</u>
Accumulated depreciation:				
Buildings and improvements	71,124	8,300	-	79,424
Machinery and equipment	152,191	6,460	12,887	145,764
Infrastructure	<u>3,792</u>	<u>7,584</u>	<u>-</u>	<u>11,376</u>
Total accumulated depreciation	<u>227,107</u>	<u>22,344</u>	<u>12,887</u>	<u>236,564</u>
Total capital assets being depreciated - net	<u>259,848</u>	<u>(4,344)</u>	<u>-</u>	<u>255,504</u>
Governmental activities capital assets - net	<u>\$ 309,640</u>	<u>\$ (4,344)</u>	<u>\$ -</u>	<u>\$ 305,296</u>
Business-Type Activities	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets being depreciated:				
Systems and improvements	\$5,432,840	\$ -	\$ -	\$5,432,840
Machinery and equipment	<u>31,120</u>	<u>-</u>	<u>-</u>	<u>31,120</u>
Total capital assets being depreciated	5,463,960	-	-	5,463,960
Accumulated depreciation	<u>795,551</u>	<u>110,925</u>	<u>-</u>	<u>906,476</u>
Total capital assets Business-type activities capital assets - net	<u>\$4,668,409</u>	<u>\$ (110,925)</u>	<u>\$ -</u>	<u>\$4,557,484</u>

Village of Grass Lake
Notes to Financial Statements

5. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Public works	\$ 7,584
Capital assets held by the Village's internal service funds are charged to the various functions based on their usage of the assets	<u>14,760</u>
Total depreciation expense – governmental activities	<u>\$ 22,344</u>
Business-Type Activities:	
Sewer	\$ 62,787
Water	<u>48,138</u>
Total depreciation expense – business-type activities	<u>\$ 110,925</u>

6. Interfund Transfers

	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers:		
General Fund	\$ 7,500	\$ 45,000
Local Street	20,000	-
Internal Service Funds	25,000	-
Sewer Fund	50,000	
Component Unit (DDA)	<u>-</u>	<u>57,500</u>
	<u>\$ 102,500</u>	<u>\$ 102,500</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

7. Long-Term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village.

Business-type activities - long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-Type Activities:					
Bonds	<u>\$3,550,000</u>	<u>\$ -</u>	<u>\$ (230,000)</u>	<u>\$3,320,000</u>	<u>\$ 230,000</u>

Village of Grass Lake
Notes to Financial Statements

7. Long-Term Debt (Continued)

<u>Business-Type Activities</u>	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
1993 Michigan State Revolving Loan Program Bonds	2.00%	2015	\$1,340,000
2002 Michigan State Revolving Loan Program Bonds	2.50%	2023	<u>1,980,000</u>
			<u>\$3,320,000</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 230,000	\$ 74,950	\$ 304,950
2008	235,000	69,826	304,826
2009	245,000	64,600	309,600
2010	245,000	59,200	304,200
2011	255,000	53,750	308,750
2012-2016	1,190,000	183,602	1,373,602
2017-2021	640,000	83,878	723,878
2022-2023	<u>280,000</u>	<u>10,500</u>	<u>290,500</u>
Total	<u>\$3,320,000</u>	<u>\$ 600,306</u>	<u>\$3,920,306</u>

9. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year, the Village carried commercial insurance to cover all risks of losses. The Village had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

10. Contingencies

The Village is subject to legal action as a normal course of business. However, management, with counsel's assistance, vigorously upholds their position on any such action. The ultimate resolution of these matters is not ascertainable at this time. No provision has been made in the financial statements related to these claims.

11. Shared Services Agreements

The Jackson County Sheriff Department provides law enforcement services to the Village and its residents. Under this agreement, the Village is billed monthly on an hourly basis for the services provided.

Grass Lake Township provides fire protection services to the Village and its residents, which is funded through a tax levy on Village and Township property owners. The Township levies and collects all of the property taxes for fire protection.

Village of Grass Lake
Notes to Financial Statements

12. Segment Information – Enterprise Funds

The government issued revenue bonds to finance certain improvements to its water and sewer distribution and treatment systems. Because the Water and Sewer Funds, which are individual funds that account entirely for the government's water distribution and treatment and sewage disposal and treatment activities, are segments, and are reported as major funds in the fund financial statements, segment disclosures herein are not required.

Required Supplemental Information

Village of Grass Lake
 Budgetary Comparison Schedule
 General Fund
 Year Ended February 28, 2006

	Budgeted Amounts		
	Original	Final	Actual
Revenues:			
Taxes	\$ 155,000	\$ 155,000	\$ 168,621
Licenses and permits	1,000	1,000	935
Intergovernmental	60,700	60,700	91,187
Charges for services	6,000	6,000	4,059
Fines and forfeitures	7,200	7,200	2,173
Other	5,000	5,000	23,424
Total revenues	<u>234,900</u>	<u>234,900</u>	<u>290,399</u>
Expenditures:			
Legislative:			
Council	<u>24,520</u>	<u>24,520</u>	<u>17,441</u>
General government:			
Village manager	13,200	13,200	9,218
President	5,620	5,620	3,500
Elections	1,000	1,000	-
Clerk	11,100	11,100	10,494
Treasurer	10,300	10,300	8,021
Building and grounds	32,225	32,225	44,430
Other	<u>17,800</u>	<u>17,800</u>	<u>11,979</u>
Total general government	<u>91,245</u>	<u>91,245</u>	<u>87,642</u>
Public safety:			
Police	<u>58,000</u>	<u>58,000</u>	<u>56,816</u>
Public works	<u>54,000</u>	<u>54,000</u>	<u>44,643</u>
Sanitation	<u>8,500</u>	<u>8,500</u>	<u>7,339</u>
Community and economic development:			
Planning commission	<u>11,100</u>	<u>11,100</u>	<u>2,661</u>
Total expenditures	<u>247,365</u>	<u>247,365</u>	<u>216,542</u>
Revenues Over (Under) Expenditures	<u>(12,465)</u>	<u>(12,465)</u>	<u>73,857</u>
Other Financing Sources (Uses):			
Transfers in	-	-	7,500
Transfers out	<u>(45,000)</u>	<u>(45,000)</u>	<u>(45,000)</u>
Total other financing sources (uses)	<u>(45,000)</u>	<u>(45,000)</u>	<u>(37,500)</u>
Net Changes in Fund Balances	<u>(57,465)</u>	<u>(57,465)</u>	<u>36,357</u>
Fund Balances - Beginning of Year	<u>356,514</u>	<u>356,514</u>	<u>356,514</u>
Fund Balances - End of Year	<u>\$ 299,049</u>	<u>\$ 299,049</u>	<u>\$ 392,871</u>

Village of Grass Lake
 Budgetary Comparison Schedule
 Major Street Fund
 Year Ended February 28, 2006

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
State grants	\$ 63,975	\$ 63,975	\$ 74,032
Interest and rentals	<u>500</u>	<u>500</u>	<u>972</u>
Total revenues	<u>64,475</u>	<u>64,475</u>	<u>75,004</u>
Expenditures:			
Highways and streets:			
Maintenance	38,495	38,495	43,139
Traffic services	4,375	4,375	3,015
Winter maintenance	15,075	15,075	8,693
Administration	<u>5,600</u>	<u>5,600</u>	<u>6,851</u>
Total expenditures	<u>63,545</u>	<u>63,545</u>	<u>61,698</u>
Net Changes in Fund Balances	930	930	13,306
Fund Balances - Beginning of Year	<u>115,430</u>	<u>115,430</u>	<u>115,430</u>
Fund Balances - End of Year	<u>\$ 116,360</u>	<u>\$ 116,360</u>	<u>\$ 128,736</u>

Village of Grass Lake
 Budgetary Comparison Schedule
 Local Street Fund
 Year Ended February 28, 2006

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
State grants	\$ 16,000	\$ 16,000	\$ 20,312
Interest and rentals	400	400	524
Total revenues	<u>16,400</u>	<u>16,400</u>	<u>20,836</u>
Expenditures:			
Highways and streets:			
Maintenance	41,375	41,375	48,323
Traffic services	1,000	1,000	211
Winter maintenance	14,280	14,280	8,336
Administration	<u>5,600</u>	<u>5,600</u>	<u>6,894</u>
Total expenditures	<u>62,255</u>	<u>62,255</u>	<u>63,764</u>
Revenues Over			
(Under) Expenditures	<u>(45,855)</u>	<u>(45,855)</u>	<u>(42,928)</u>
Other Financing Sources (Uses):			
Operating transfers in	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
Total other financing sources (uses)	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
Net Changes in Fund Balances	<u>(25,855)</u>	<u>(25,855)</u>	<u>(22,928)</u>
Fund Balances - Beginning of Year	<u>89,146</u>	<u>89,146</u>	<u>89,146</u>
Fund Balances - End of Year	<u>\$ 63,291</u>	<u>\$ 63,291</u>	<u>\$ 66,218</u>

Other Supplemental Information

Village of Grass Lake
Schedule of Bonded Indebtedness
Water Fund
February 28, 2006

Michigan Municipal Bond Authority
Revenue Bonds - Series 2002

<u>Issue Date</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2/28/2006</u>	<u>Interest Payable</u>
September 26, 2002	\$ 2,255,000				
		2.500%	4/1/2007	\$ 95,000	\$ 49,500
		2.500%	4/1/2008	95,000	47,126
		2.500%	4/1/2009	100,000	44,750
		2.500%	4/1/2010	100,000	42,250
		2.500%	4/1/2011	105,000	39,750
		2.500%	4/1/2012	105,000	37,126
		2.500%	4/1/2013	110,000	34,500
		2.500%	4/1/2014	115,000	31,750
		2.500%	4/1/2015	115,000	28,876
		2.500%	4/1/2016	120,000	26,000
		2.500%	4/1/2017	120,000	23,000
		2.500%	4/1/2018	125,000	20,000
		2.500%	4/1/2019	130,000	16,876
		2.500%	4/1/2020	130,000	13,626
		2.500%	4/1/2021	135,000	10,376
		2.500%	4/1/2022	140,000	7,000
		2.500%	4/1/2023	140,000	3,500
				<u>\$ 1,980,000</u>	<u>\$ 476,006</u>

Village of Grass Lake
Schedule of Bonded Indebtedness
Sewer Fund
February 28, 2006

Michigan Municipal Bond Authority
Revenue Bonds - Series 1993

<u>Issue Date</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2/28/2006</u>	<u>Interest Payable</u>
September 30, 1993	\$ 2,638,515				
		2.000%	10/1/2006	\$ 135,000	\$ 25,450
		2.000%	10/2/2007	140,000	22,700
		2.000%	10/1/2008	145,000	19,850
		2.000%	10/1/2009	145,000	16,950
		2.000%	10/1/2010	150,000	14,000
		2.000%	10/2/2011	150,000	11,000
		2.000%	10/1/2012	155,000	7,950
		2.000%	10/1/2013	160,000	4,800
		2.000%	10/1/2014	160,000	1,600
				<u>\$ 1,340,000</u>	<u>\$ 124,300</u>



September 25, 2006

Members of Village Council
Village of Grass Lake
Grass Lake, Michigan

We have audited the financial statements of the Village of Grass Lake for the year ended February 28, 2006, and have issued our report thereon dated September 25, 2006.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Village. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Village's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note 1 to the financial statements. No new accounting policies were adopted and no other applications of existing policies were changed during the current year. We noted no transactions entered into by the Village during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

WILLIS & JURASEK, P.C.

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Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no material estimates recorded during the current year.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village's financial reporting process (that is, cause future financial statements to be materially misstated). We had to do a large amount of journal entries at year-end that did have a material affect on the financial statements of the Village.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information and the attached memorandum is intended solely for the use of the Village Council and management of the Village and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek, P.C.

Village of Grass Lake
Comments and Recommendations
Year Ended February 28, 2006

Audit Adjustments

As noted above, several journal entries were needed at year end. Several adjustments involved cash. We would suggest that different procedures be put in place to monitor the cash balances. Some of the entries involved missing entries from prior year involving deposits that should be caught during the year with the bank reconciliation processes that are needed.

Bank Reconciliation

The bank reconciliations do not appear to be done timely and are not compared to the general ledger balances during the year. As part of the overall process the bank balances must be done timely for all cash accounts and reconciled to the general ledger accounts and discrepancies corrected monthly. This needs to be part of your monthly processes. We have discussed this issue with the Management of the Village have suggested procedures to help with this process. You may consider realigning the bank accounts used and the manner in which some of the general ledger coding effects these balances.

Fixed Assets

We recommend you set up new accounts within your general ledger, one for depreciable fixed assets and one for non-depreciable fixed assets. This would allow easy monitoring and updating of your schedules.

Budget to Actual Results

The Village maintains and adopts an annual budget. During the year ended February 28, 2006 there were a few areas where actual expenditures exceeded final budgeted amounts. The budget should be monitored and amendments made as needed during the year. While the amounts were not significant, proper budgeting procedures need to be in place to make these amendments during the year.